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ACTION EB-07

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INR-07 INT-05 L-02 LAB-04 NSAE-00 NSC-05 PA-01 AID-05

CIEP-01 SS-15 STR-04 TAR-01 TRSE-00 USIA-06 PRS-01

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SUBJ: JAPANESE ARTICLE XXII CONSULTATIONS ON MEAT

REF: STATE 106295

1. SUMMARY. ON MAY 12 THE SECOND MEETING OF THE ARTICLE XXII CONSULTATIONS BETWEEN JAPAN AND THE UNITED STATES, AUSTRALIA AND NEW ZEALAND WAS HELD. THE JAPANESE DELEGATION ANNOUNCED THAT THE INTERNAL BEEF MARKET SITUATION HAS AGAIN BECOME NORMAL. HENCE, IMPORTS WILL BE RESUMED IN JUNE WITH AN INITIAL IMPORT QUOTA OF 10,000 MT OF FROZEN BEEF. FURTHER QUOTAS WILL FOLLOW BUT THE JAPANESE DELEGATION WAS UNABLE TO STATE THE DATES AND AMOUNTS OF THESE ADDITIONAL QUOTAS. THE JAPANESE DELEGATION GAVE A DETAILED EXPLANATION OF THE NEW BEEF FLOOR AND CEILING PRICES. AT THE END
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OF THE MEETING, AUSTRALIA, WITH THE CONCURRENCE OF THE U.S. AND NEW

ZEALAND, ANNOUNCED THAT IT CONSIDERS THE ARTICLE XXII CONSULTATIONS AS BEING TERMINATED. THE RESULTS OF THESE CONSULTATIONS WILL BE REPORTED TO THE GATT COUNCIL. END SUMMARY.

2. ON MAY 12, THE SECOND AND LAST MEETING OF THE GATT ARTICLE XXII CONSULTATIONS ON JAPAN'S BEEF EMBARGO WAS HELD. U.S., AUSTRALIA AND NEW ZEALAND, ON THE ONE HAND, AND JAPAN, ON THE OTHER, PARTICIPATED IN THESE CONSULTATIONS. THE JAPANESE DELEGATION LED BY TAKASU FROM THE MINISTRY OF AGRICULTURE ANNOUNCED WITH THE HELP OF VOLUMINOUS STATISTICS THAT THE DOMESTIC BEEF SUPPLY AND MARKET PRICES HAVE RETURNED TO WHAT MAY BE CONSIDERED NORMALCY. HENCE, JAPAN WILL BE ABLE TO OPEN IN JUNE AN IMPORT QUOTA OF NO LESS THAN 10,000 MT OF FROZEN BEEF. SUCCESSIVE QUOTAS WILL BE OPENED LATER BUT THE JAPANESE DELEGATION WAS UNABLE TO INDICATE THE DATES AND THE AMOUNTS OF THESE ADDITIONAL QUOTAS.

3. THE ANNOUNCED OPENING OF THE JAPANESE BEEF MARKET TO IMPORTS IS APPARENTLY PREDICATED ON THE INTRODUCTION OF A NEW PRICE SUPPORT SYSTEM FOR BEEF. THIS SYSTEM CALLED QUOTE LAW OF PRICE STABILIZATION OF LIVESTOCK PRODUCTION UNQUOTE WILL REPORTEDLY OPERATE AS FOLLOWS:

4. EACH YEAR A FLOOR PRICE, A CEILING PRICE, AND A SO-CALLED CENTER PRICE WILL BE ESTABLISHED. THE LEVEL OF THE CENTER PRICE WILL BE DETERMINED ON THE BASIS OF AVERAGE MARKET PRICES AND COSTS OF BEEF DURING THE MOST RECENT 7-YEAR PERIOD ADJUSTED BY PRICES AND COSTS DURING THE MOST RECENT 3-MONTH PERIOD. (THUS, THE CENTER PRICE FOR 1975 WILL BE COMPUTED ON THE BASIS OF THE 1968-74 COST AND PRICE AVERAGE ADJUSTED BY AVERAGE COSTS AND PRICES DURING DECEMBER 1974 AND JANUARY AND FEBRUARY 1975.) THE CEILING AND FLOOR PRICES DURING THE CURRENT YEAR WILL BE RESPECTIVELY 14.1 PERCENT ABOVE AND BELOW THE CENTER PRICE. THE LIVESTOCK IMPORT PROMOTION COOPERATIVE (LIPC) WILL BE OBLIGATED TO BUY BEEF IF THE MARKET PRICE REACHES THE FLOOR PRICE AND SELL BEEF IF THE MARKET PRICE REACHES OR EXCEEDS THE CEILING. THE LIPC WILL ALSO BE ABLE TO ENTER THE MARKET IF MARKET PRICES ARE ABOVE THE FLOOR BUT BELOW THE CEILING, ALWAYS WITH THE AIM OF KEEPING MARKET PRICES NEAR THE CENTER PRICES. (FOR 1975, THE FLOOR PRICE WILL BE 930 YEN/KG FOR DAIRY BEEF AND 1,143 YEN/KG FOR JAPANESE-TYPE BEEF.)

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5. THE JAPANESE DELEGATION ASSERTED THAT THE OPERATION OF THE MARKET SUPPORT SCHEME WILL HAVE NO INFLUENCE ON IMPORTS BECAUSE LIPC WILL OPERATE BUFFER STOCKS WHICH, THEY SAID, WOULD BE LARGELY INDEPENDENT.

6. THE JAPANESE DELEGATION'S EXPLANATION IS THAT THE NEW BEEF SUPPORT SYSTEM WILL BE NEUTRAL AS REGARDS IMPORTS MET WITH SKEPTICISM ON THE PART OF THE OTHER DELEGATIONS. AUSTRALIA AND U.S. WONDERED

WHETHER FIXED SUPPORT PRICES WOULD NOT ENCOURAGE DOMESTIC PRODUCTION. JAPANESE DELEGATION REPLIED THAT THIS WOULD NOT BE THE CASE SINCE THE POTENTIAL FOR INCREASING BEEF PRODUCTION IN JAPAN IS VERY LIMITED. U.S. DELEGATION POINTED OUT THAT FIXED FLOOR PRICES MAY DISCOURAGE CONSUMPTION. MOREOVER, HE WONDERED WHETHER THE NEW SUPPORT SCHEME DOES NOT REPRESENT IN DISGUISE A SYSTEM OF INDIRECT MINIMUM IMPORT PRICES SINCE IT APPEARS DOUBTFUL THAT IMPORT QUOTAS WILL BE OPENED IF DOMESTIC PRICES ARE AT FLOOR LEVEL AND IF LIPC WILL THUS HAVE TO ACCUMULATE STOCKS.

7. THE JAPANESE DELEGATION STATED THAT AT PRESENT STOCKS OF LIPC AMOUNT TO 12,000 MT (CARCASS WEIGHT) OR ABOUT 8,500 MT (BONE OUT BASIS). THESE LOW STOCKS ARE THE REASON FOR THE JUNE IMPORT QUOTAS. UPON INSISTENT QUESTIONING BY OTHER DELEGATIONS AS TO WHAT ADDITIONAL IMPORT QUOTAS MAY BE EXPECTED, THE JAPANESE DELEGATION OFFERED ON A PERSONAL AND CONFIDENTIAL BASIS THE FOLLOWING ALTERNATIVE ESTIMATES FOR 1975. THE FIRST ALTERNATIVE IS BASED ON THE ASSUMPTION THAT CONSUMER DEMAND WILL REMAIN STAGNANT; THE SECOND THAT IT WILL GROW BY ABOUT 5 PERCENT IN THE COURSE OF THE YEAR.

8. TABLE.

	ALTERNATIVE I (000 MT)	ALTERNATIVE II
PRODUCTION	346	346
STOCK (PRIVATE)	5	5
STOCK (LIPC)	12	12
TOTAL	363	363
DEMAND	425	450
IMPORTS	62	87
OF WHICH:		
OKINAWA AND HOTEL QUOTA	12	12
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REGULAR QUOTA	50	75
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9. JAPANESE DELEGATION EXPLAINED THAT REGULAR IMPORT QUOTAS WILL BE LARGER THAN INDICATED IN THESE ESTIMATES BECAUSE OF THE NEED OF LIPC TO ACCUMULATE STOCKS AND ALSO BECAUSE QUOTAS FOR THE NEXT YEAR MAY BE ANNOUNCED THIS YEAR. (SIC).

10. AUSTRALIAN, NEW ZEALAND AND U.S. DELEGATIONS WELCOMED ANNOUNCEMENT OF REOPENING OF JAPANESE IMPORT MARKETS BUT EXPRESSED REGRETS THAT CONTEMPLATED IMPORTS WILL FALL SHORT BY FAR OF HISTORICAL IMPORT LEVELS. WE ALSO REGRETTED ABSENCE OF PREDICTABILITY OF IMPORTS AND LACK OF PLANS FOR FURTHER SUBSTANTIVE LIBERALIZATION.

11. THE JAPANESE DELEGATION WAS UNABLE TO JUSTIFY UNDER GATT THE CONTINUATION IF IMPORT QUOTAS.

12. IT WAS AGREED THAT THIS MEETING TERMINATES THE ARTICLE XXII
CONSULTATIONS.

13. THE RESULTS OF THESE CONSULTATIONS WILL BE REPORTED TO THE GATT
COUNCIL.DALE

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